

Message Text

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ACTION EB-08

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 FRB-01

INR-10 NSAE-00 TRSE-00 XMB-04 OPIC-06 SP-02

LAB-04 SIL-01 OMB-01 SS-15 STR-07 CEA-01 PA-02

SSO-00 NSCE-00 INRE-00 USIE-00 /080 W

-----030664 091111Z /23

O R 090857Z MAR 78

FM AMEMBASSY BANGKOK

TO SECSTATE WASHDC IMMEDIATE 1315

INFO AMEMBASSY KUALA LUMPUR

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

AMCONSUL HONG KONG

UNCLAS BANGKOK 7228

E.O. 11652: N/A

TAGS: EFIN, ETRD, TH

SUBJ: BAHT UNPEGGED FROM DOLLAR; TARIFFS ON "LUXURY IMPORTS"

HEAVILY INCREASED

1. IN A SURPRISE MOVE LAST NIGHT THE RTG ANNOUNCED THE UPEGGING OF THE BAHT FROM THE DOLLAR AND ITS PROBABLE ATTACHMENT WITHIN THE NEXT NINETY DAYS TO A BASKET OF "STABLE CURRENCIES." THE GOVERNMENT SPOKESMAN POINTED TO THE 15 PERCENT DECLINE IN THE VALUE OF THE DOLLAR AGAINST THE CURRENCIES OF THAILAND'S TWENTY MAJOR TRADING PARTNERS AS BEING THE PRIME REASON FOR THE CHANGE. THIS HAD CONTRIBUTED TO THE UNPRECEDENTED PAYMENTS DEFICIT LAST YEAR. (THAILAND'S TRADE DEFICIT EXCEEDED ONE BILLION DOLLARS IN 1977 AND AN OVERALL BALANCE OF PAYMENTS DEFICIT OF 377 MILLION. THERE ARE PREDICTIONS THAT THE BALANCE OF PAYMENTS DEFICIT IN 1978 COULD REACH 600 MILLION DOLLARS IF CORRECTIVE STEPS ARE NOT TAKEN.) THERE IS SOME UNCERTAINTY WHAT EFFECT THIS WOULD HAVE ON THE EXCHANGE RATES IN THE INTERIM PERIOD. A CHECK WITH THE BANK OF THAILAND INDICATED THAT THE PREVIOUS EXCHANGE RATES WILL CONTINUE TO BE IN EFFECT. ADDITIONALLY, DR. SANO OF THE BANK OF

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THAILAND HAS STATED THAT, "WE WILL KEEP THE VALUE OF THE BAHT AS STABLE AS POSSIBLE AND OUR "EXCHANGE EQUALIZATION FUND" WILL BE USED TO BUY OR SET THE DOLLAR AT THE SAME RATE WITH UNLIMITED AMOUNTS."

2. IN A SIMULTANEOUS AND COMPLEMENTARY DECISION, THE RTG LIFTED THE IMPORT BAN ON 18 ITEMS IMPOSED JANUARY 31 AND INCREASED THE

TAX, IN SOME CASES DRASTICALLY, ON SOME 141 IMPORT ITEMS. MOST PROMINENT AMONG THE NEW INCREASES WERE PASSENGER CARS, AUTO PARTS, HOUSEHOLD ELECTRICAL APPLIANCES, WEARING APPAREL, FOOD PRODUCTS, TV AND HI-FI COMPONENTS, AS WELL AS LIQUORS. IN ADDITION, THE TAX ON GASOLINE WAS INCREASED FROM 1.1 BAHT TO 1.8 BAHT PER LITER. (THAI IMPORTS OF CRUDE OIL ARE RUNNING AT 1.1 BILLION DOLLARS A YEAR AND IS THEIR PRINCIPAL FOREIGN EXCHANGE EXPENDITURE.) IT IS HOPED THESE MEASURES WILL SLOW THE IMPORT OF THESE ITEMS AND MAKE A CREDITABLE DENT IN THEIR CURRENT ACCOUNT DEFICIT.

3. COMMENT: THIS PROPOSAL TO UNPEG THE BAHT HAD BEEN RAISED IN JANUARY WITH SENIOR RTG SPOKESMAN FINALLY KNOCKING IT DOWN BECAUSE IT WOULD TEND TO INCREASE IMPORTS AND DEPRESS EXPORTS. HOWEVER, OVER 30 PERCENT OF THAI IMPORTS COME FROM JAPAN AND THE WIDENING GAP IN THE DOLLAR/YEN RATES ALONG WITH CONTINUED DECLINE OF THE DOLLAR ON WORLD EXCHANGES PROMPTED THE SHIFT IN THAI POLICY. IN EFFECT THE UPEGGING OF THE BAHT WILL GIVE THE RTG AUTHORITIES MORE FLEXIBILITY IN MANAGING THEIR EXCHANGE RATES IN THE FUTURE. THEREFORE, ANY FUTURE CHANGES WILL DEPEND ON WHAT HAPPENS TO THE DOLLAR. WHITEHOUSE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DOLLAR, IMPORTS, BAHT, TARIFFS
Control Number: n/a
Copy: SINGLE
Draft Date: 09 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BANGKO07228
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780106-0173
Format: TEL
From: BANGKOK
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780390/aaaacxrq.tel
Line Count: 82
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: f4df0fcb-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3395941
Secure: OPEN
Status: NATIVE
Subject: BAHT UNPEGGED FROM DOLLAR; TARIFFS ON "LUXURY IMPORTS" HEAVILY INCREASED
TAGS: EFIN, ETRD, TH
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/f4df0fcb-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014